

VDH Drinking Water Funding Program Guidance Package #3

FINANCIAL MANAGEMENT

It is essential that all Recipients maintain a financial management/control system for complete accountability of monies. An accountability system requires:

- 1) the overall ability to track and control activities*
- 2) a sound accounting system*
- 3) good internal controls*
- 4) compliance with all applicable guidelines*
- 5) proper procurement procedures.*

This guidance is designed to assist the Recipient in reviewing existing capabilities and to provide some procedures/guidelines to ensure an adequate accounting system.

The Virginia Public Procurement Act provides the legal basis by which all procurements are to be made in the Commonwealth including procurement for professional services, nonprofessional services, construction, equipment and supplies.

The Uniform Financial Report Manual issued by the Virginia Auditor of Public Accounts pursuant to Section 15.1-66, Code of Virginia (1950), establishes accounting principles and requirements that must be followed by Virginia Recipients.

Guidelines for property management, budget requirements and audit requirements are included in the 40 CFR Parts 30, 31 and 33, and Office of Management and Budget; Circular A-133, "Audit of States, Local Governments and Non-Profit Organizations" and Single Audit Act Amendments of 1996.

The financial management function is comprised of various parts that must be carried out in an effective, coordinated manner to achieve goals and produce results in a timely and efficient manner.

By accepting the funding, the Recipient accepts responsibility for controlling the funds it will receive. Commonly accepted standards for an adequate financial management system provide for accurate and complete reporting of finances in accordance with state accounting and reporting requirements. Records that identify the source and application of funds pertaining to awards, obligations, assets, liabilities, outlays, and income should be maintained. Effective control over and accountability for all funds, property, and other assets in the form of audits must be established. Further, a systematic method to assure timely and appropriate resolution of audit findings and recommendations must be in place.

Accounting Systems

According to the Uniform Financial Reporting Manual, all Recipients are required to comply with Generally Accepted Accounting Principles (GAAP) which mandate that government resources shall be organized and accounted for on a fund basis.

The accounting system itself should be double entry. A general ledger supported by a cash receipts journal, a cash disbursements journal, a journal voucher or general journal, and a fixed assets ledger comprise the minimum requirements. Other ledgers the Recipient should keep include accounts receivable and accounts payable ledgers, as well as budget/expenditures control and cash control subsidiary ledgers.

Budgeting

The budget is the document by which projected resources are allocated on the basis of need. Budgets also provide a source of control for ensuring that resources are not overspent. The use of a subsidiary budget/expenditure ledger as the basis of comparison and control is an accepted method. Expenditures and encumbrances should be posted in such a manner as to reflect the unencumbered balance available for expenditure.

Procurement Systems

In general, the objectives of a procurement system are to promote to the maximum extent possible free and open competition, and to insure that the Recipient is receiving the required product at the best price. The system should also be structured to avoid unnecessary expenditures and to provide written guidelines for purchases made by the Recipient. Provisions to promote maximum usage of minority and women owned businesses must also be incorporated in the Recipient's procurement process.

The Public Procurement Act sets forth the guidelines for the procurement of goods and services in the state. The Recipient should establish a written set of procedures that detail how procurements will be made and by whom.

Specific procurement information and guidance is provided in Program Guidance #4.

Property Management Systems

The property management system should provide records which include a description of the property, date acquired, title rights (if applicable), source, labeling or identification codes (serial number, model), cost or value of the item, and the vendor from which it was purchased for all nonexpendable items. The Recipient should make inventories periodically. Any differences between physical and book inventories should be immediately reviewed and reconciled.

Internal Controls

Internal control is the means by which the Recipient's accounting, procurement, and other management systems are regulated. It serves to assure management that proper procedures are followed with respect to all project operations, including receipt and disbursement of public funds. Internal controls should include segregation and rotation of duties among employees so that one person does not have complete control over all phases of any transaction. Yearly audits should be made at the Recipient's initiative, and systematic methods established to assure timely and appropriate resolution of audit findings and recommendations. All assets and records should be properly protected through the use of appropriate security measures.

Audit Compliance

The Recipient must comply with the Single Audit Act (SAA) by contracting for audits that are in compliance with the SAA and establishing methods for the timely resolution of audit findings.